

September 23, 2004

HONORABLE MAYOR AND CITY COUNCIL:

In formulating a 2004-2005 Operating Budget for the City of San José, the Council and the Administration faced a daunting task – creating a balanced budget in the face of a third straight year of declining revenues, with a forecast that showed little chance of recovery in the near term. The regional economic decline that began in early 2001 has lasted longer, and been more severe than almost any economic experts predicted. Some have even argued that we are facing, not just a temporary downturn, but also a new economic reality. Regardless of whether the current situation represents a permanent restructuring of our fiscal environment or simply a continuing temporary reversal, it is clear that the hoped-for economic recovery has not arrived, and the current economic environment is likely to be with us for some time. Thus the budget strategy devised to address the current situation was designed to address what we need to assume is a stagnant fiscal environment that will continue beyond 2004-2005 into future fiscal years.

As a result of this economic situation, the fiscal problem facing the City in formulating this budget was clear. With shrinking revenues and continuing growth in costs, there are simply not enough dollars available to the City to continue providing all of the existing level of services. As a result, this Adopted Operating Budget, utilizing City Council priorities, attempts to focus available resources on the most essential services – primarily public safety, meeting basic infrastructure requirements, and maintaining the City Council's commitment to neighborhoods. Working as teams, City Service Area (CSA) staff formulated strategies to focus resources on core functions, and ensuring the ability to continue providing high quality services in those core service areas even as they identified ways to reduce the number and range of services they could continue to provide. Service reductions were only one piece of the solution. Wherever possible, CSA's devised strategies to restructure and rethink how we deliver services to ensure that our limited resources are used as effectively as possible. The City's "One-Voice" effort highlights several of these new approaches, as does the reorganization of Strong Neighborhoods Initiatives, and the Hub concept put forth by the Recreation and Cultural Services CSA as a new service delivery model for community centers. Only

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after all opportunities to reduce costs through efficiencies and elimination of non-core services were fee increases proposed, to both ensure, as directed by the City Council, that opportunities for cost recovery were maximized, and as a method for preserving essential services.

Most public agencies across the country were faced this year with similar structural imbalances in their budgets, and it has become an increasing trend nationally to attempt to develop strategies to budget with outcomes in mind, thereby allowing policy-makers to view their decisions from a broader perspective and to begin to understand the service level impact of their decisions. In this regard, San José was definitely better prepared than most local governments to make difficult budgeting decisions in this fashion, as the City is now in the 5th year of a nationally recognized performance-based budgeting program that has transformed how budget decisions are made. Therefore, as can be seen throughout this document, where services have had to be reduced, the impacts of those reductions have been systematically reflected in related performance measures, allowing the City Council to better understand the results of its decisions and the impact of those decisions on our residents.

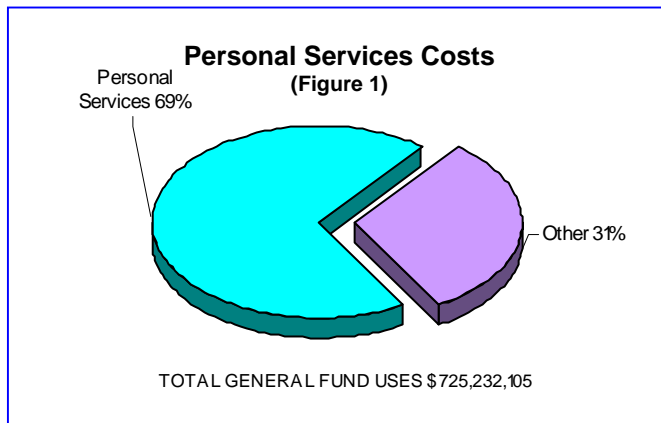
Overall, our fiscal situation as we approached the preparation of this budget was strikingly similar to that facing us last year, with the unfortunate exception that the number of options available to us to balance the budget without reducing services has grown smaller as our economic woes continue into a third straight budget year. We also continued, for the third year in a row, aggressive efforts to lessen the impact of measures necessary going into the coming year. Once again, as it became obvious that the scope and depth of the downturn continued into the current fiscal year, cost control strategies and operational adjustments were implemented at various points in the 2003-2004 year to reduce the scale of service reductions that would be required to balance the 2004-2005 Operating Budget. These measures included the continuation of some measures, such as the general hiring freeze that has now been in place for over two years, and departmental cost reduction management plans, as well as new, tighter centralized controls on a whole host of discretionary expenditure categories (marketing, travel, equipment purchases, etc.), and the development of early reduction opportunities, for Council consideration prior to the kick-off of the formal Council budget consideration process.

Also as was the case a year ago, per Council direction, the Administration proposed, and the Council approved as part of the Adopted Budget a set of more severe “Tier Two” reductions in the form of a *2004-2005 Compensation/State Budget Impact Contingency Plan* (the details of which can be found in a separate section toward the back of this document) for use should additional balancing actions prove to be necessary depending on the outcome of one or both of two outstanding processes: changes to employee compensation assumptions (a number of contracts with City labor groups remained unresolved during the budget process) or additional takeaways which could result from final State budget actions, which also was unresolved as this budget was gaining final approval. (Subsequent to the adoption of this budget, State actions were approved which resulted in a reduction of \$11.4 million in City revenues and utilized two of the strategies identified as contingencies in the adopted plan. Resolution of contract negotiations with the City’s two largest labor organizations, however, the Police Officers Association and the International Association of Fire Fighters, as well as several smaller organizations remain unresolved at this writing.)

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On an overall basis in spite of the difficult financial environment, we believe this budget, like the ones that have preceded it, successfully balanced projected revenues and expenditures while continuing to preserve to the maximum extent possible the most essential City services.

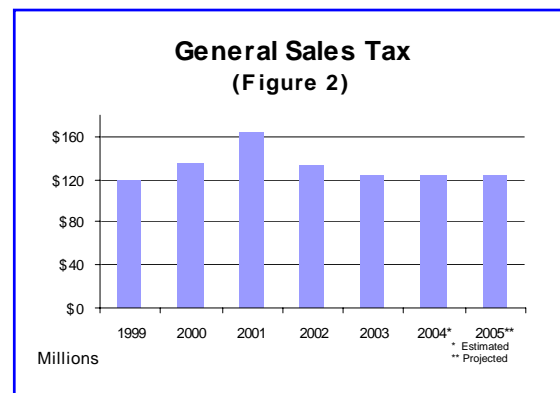
Unlike last year, however, certain strategies employed in formulating the 2003-2004 budget without impacting service levels were less available, e.g., the elimination of vacancies which had been vacant for some time, the transfer of one-time funding, and the sale of property. As a result, therefore, unlike last year when we were generally successful in trimming programs without greatly impacting service levels, this year our residents will definitely experience meaningful and noticeable service reductions.



With financial forecasts continuing to display little if any sign of improvement in the near-term for the local economy, the 2004-2005 Adopted Operating Budget assumes that there will be only minor growth in economically sensitive revenue sources for at least the next several years. On the cost side of the equation, however, even given the approved strategy of asking all employees to forego salary increases, personnel related costs continue to rise at an alarming rate, and as can be seen from

Figure 1, the majority of costs in the General Fund are personnel related. The City contribution to all of its retirement funds, for example, rose by more than \$30 million—the amount necessary to overcome the poor performance of the Retirement Fund portfolios that were affected by the same economic downturn that has reduced City revenues. Also continuing to grow at a steep pace are the costs for health care and workers compensation programs.

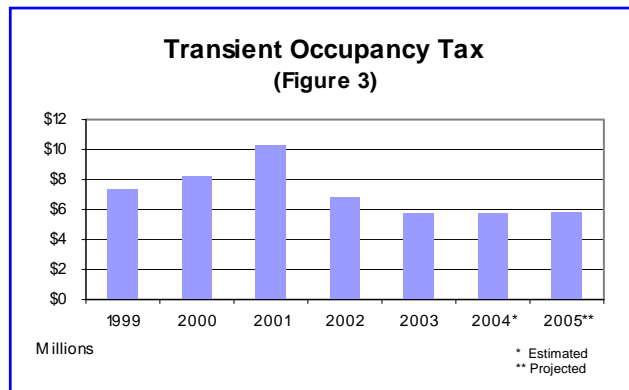
As described above, these trends were obvious from the beginning of the fiscal year, and as a result, the expenditure management actions mentioned above were implemented early in 2003-2004. These strategies are described in more detail later in this Budget Message, along with the details of the budget balancing plan that closed the 2004-2005 revenue-expenditure gap while positioning the City for 2005-2006, when current projections showed that the City will face a fourth year of significant fiscal challenges. Total General Fund revenue projections for 2003–2004 were \$638.2 million. For 2004–2005 projections placed the base budget revenues at \$624.1 million (not counting revenue generating recommendations included in the 2004-2005 General Fund balancing strategy). This represented an overall decline of \$14.1 million in 12 months and \$19.4 million over a two-year period.



While the full significance of the economic downturn is detailed in the *General Fund Balancing Strategy Detail* (Attachment A), several noteworthy trends are highlighted here to call attention to the magnitude of the economic slump. In 2003-2004, the economy failed to sustain conservative

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revenue projections. Key revenues continued to decline. Sales taxes in 2003 (Figure 2) fell to levels approaching those collected in 1999, well below the predicted modest recovery anticipated one year ago. Similarly, Transient Occupancy Tax (TOT), which is tied to revenue from local hotel bookings, continued to slide. TOT revenues were projected to grow by 3% to \$6.7 million, but underperformed even that modest expectation. While hotel occupancy rates dropped slightly during the 2003-2004 fiscal year (from 54% to 51%), the average per room charge continued a decline that began before the events of 9-11 (dropping from an average of \$120 to \$111), resulting in an overall decline in the Transient Occupancy Tax (Figure 3). The 2003-2004 TOT projection was reduced by 10% at mid-year, and this budget estimated that receipts would fall below even that reduced level by another 5.5%. The most disturbing indicator of the enduring economic slowdown, however, can be found in local job figures (Figure 4). As we are all only too painfully aware, Santa Clara County has lost a staggering 231,000 jobs since the peak of the local employment situation in December 2000. While unemployment recently began trending down from its peak last year (9.1%), it still remained, as this budget was being prepared, at an uncomfortably high 6.8%, a rate which remained well above both the State and national averages. Moreover, we actually believe the reduction in the unemployment rate primarily represents individuals leaving the job market, either through relocation or simply giving up seeking employment, since the number of jobs in the County has not grown at all during this period.



It is a reflection of the prudence of the City Council's consistent conservative approach to fiscal management that, despite the many negative economic factors influencing City finances, San José has maintained its strong AA+ bond rating, the highest of any major California city. While some economic indicators appear to be leveling off or showing slight improvement in the first quarter of 2004, there was simply no indication that a meaningful recovery is likely anytime in the near future. The revenue estimates included in

this budget are, therefore, based on the presumption that the local economy in 2004-2005 will continue in its current depressed state, with only minimal growth in our economically sensitive revenue sources.

ECONOMIC OVERVIEW

One of the most significant challenges in formulating any budget is projecting the future condition of the local economy. This year, that challenge was particularly difficult, as the unexpectedly long duration of the economic downturn has confounded even the best experts' prediction of a recovery. Because of the trend to move jobs offshore (many of which had previously sustained the local economy), it is difficult to predict how many of the more than 231,000 jobs lost since 2000, may be considered permanently lost. In addition, many of our largest tax-generating businesses have suffered severe revenue declines, and a significant number of businesses have simply closed. As a result, City revenues have suffered a severe decline. At the national level, and in other regions of the State, as this budget was being prepared, there were some signs of a tentative national recovery. Locally though, the freefall of the last few years may well have abated, but there remains little if any

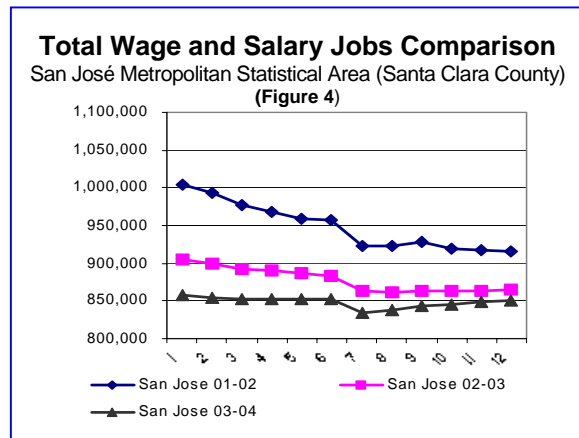
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ECONOMIC OVERVIEW (CONT'D.)

indication of a resumption of significant growth in the near future. Unemployment is still high. Job losses continue in key business sectors, and economically sensitive City revenues remain stagnant. General sales tax receipts, the largest revenue source in the General Fund, dropped for ten consecutive quarters, although our most recent quarterly report ended that dubious streak by registering an anemic growth level of less than 1%. Finally, the uncertainty of our own economic situation continued to be exacerbated by the uncertainty of the impact of State budget balancing actions. These factors led to a simple conclusion. The only prudent course for the 2004-2005 fiscal year budget was to presume that we would continue to face stagnant economic conditions for the entirety of the fiscal year, and that General Fund revenue estimates used in this budget should presume flat or only slight growth in the key economically related City revenues.

Job Losses and Unemployment

As stated above, we continue to feel strongly that the regional employment situation is the single most important factor in judging when this economy might begin to turn around. The two sources of data that we monitor most closely as indicators of the Silicon Valley's economic health are wage and salary job gains/losses and the unemployment rate. Unfortunately, the recent performance of these two indicators provided little evidence that the local economy was on the verge of recovery. Although the pace of job losses had declined (Figure 4), and we have recently even seen small job growth, there is still no indication that a sustained increase in jobs is any where near occurring. Since last July, Silicon Valley has lost an additional 13,500 wage and salary jobs. Although this is significantly better than the more than 34,000 jobs lost during the same period last year, it occurs during a time when the State actually saw total jobs increase. While the recent leveling off of local job loss is welcome, the region would need a number of months of sustained job increases for a local economic recovery to take hold.



State Budget Problems

The State of California, as has been well documented, continues to face significant budget problems. The strategy used by the State to balance last year's budget contained large elements of one-time actions, and guaranteed that California would face a huge shortfall going into the 2004-2005 fiscal year. While the recall of Governor Davis and election of Governor Schwarzenegger changed the nature of the debate, the budget balancing challenge continued to threaten local revenues. The new governor indicated from the beginning that he was determined to create a structural fix to the current problems, and that reductions to local revenues would likely have to be a part of that strategy. His approach to local government has been, however, a marked improvement over that originally proposed by his predecessor. Governor Davis's proposed budget, issued in January, for example, would have resulted in devastating reductions in City revenues. Governor Schwarzenegger was at least willing to engage with local governments in an attempt to provide for a longer term

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ECONOMIC OVERVIEW (CONT'D.)

State Budget Problems (Cont'd.)

perspective on the issue of the prior practice of utilizing local revenue sources to help balance State budget problems. Subsequent to the adoption of this budget, and after protracted negotiations, the State approved a budget in July. The impact of the State Budget created a 2004-2005 General Fund shortfall totaling \$11.4 million. These reductions were part of a larger structural reform strategy that will be placed before the voters in November, and if approved, would limit these reductions to the 2004-2005 and 2005-2006 fiscal years.

BUDGET OVERVIEW

In the 2004–2005 Adopted Operating Budget, the total net adopted funding is \$2,695,474,850 for all City funds (General, Special, and Capital). This is \$168,200,636 or 5.9% lower than the current 2003–2004 Adopted Operating Budget (Table 1). Under this spending plan, the total number of positions is decreased by approximately 5.9%, to a total of 6,787—the second straight year of significant position reductions.

2004–2005 Adopted Budget – All Funds (Table 1)			
	2003–2004 Adopted	2004–2005 Adopted	% Change
General Fund	\$ 824,235,522	\$ 812,528,785	(1.4%)
Special Funds	\$ 1,455,252,462	\$ 1,275,401,267	(12.4%)
<Less: Operating Transfers>	(\$ 756,877,083)	(\$ 616,705,061)	(18.5%)
Net Operating Funds	\$ 1,552,610,901	\$ 1,471,224,991	(5.2%)
Capital Funds	\$ 1,351,890,585	\$ 1,230,129,859	(9.0%)
<Less: Capital Transfers>	(\$ 10,826,000)	(\$ 5,880,000)	(45.7%)
Net Capital Funds	\$ 1,341,064,585	\$ 1,224,249,859	(8.7%)
Net Total	\$ 2,863,675,486	\$ 2,695,474,850	(5.9%)

The General Fund portion of the City's Budget was decreased by 1.4% from 2003–2004, and totals \$812,528,785.

Budget Balancing Strategies

It is important to view the balancing actions included in this budget in the context of impacts experienced by the organization over the last two years. In balancing the 2002-2003 General Fund budget, for example, the Council approved cumulative measures necessary to close a

2004-2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

\$62.3 million shortfall. To balance the 2003-2004 Operating Budget, the City faced an even bigger challenge, successfully closing an \$81.3 million deficit in the General Fund in the budget adopted in June 2003. In August 2003, the City Council had to make yet further reductions to close an additional \$10.8 million funding gap resulting from State budget decisions made after the City's budget was approved (See Appendix: *2003-2004 General Fund Rebalancing Plan*).

Thus it came as no real surprise when our earliest projections, formulated in the summer of 2003, for the 2004-2005 fiscal year General Fund situation called for yet another shortfall of at least \$55 million, more than half of which (\$29 million) was carried forward because of the use of one-time solutions to balance the 2003-2004 Operating Budget. In October, when the first detailed update of projections for the coming fiscal year was prepared by the Budget Office, our estimate for the size of the projected deficit had grown significantly, to \$85 million, primarily as a result of higher than anticipated health and retirement benefits costs, combined with revenue projections that continued to fall below earlier estimates. In response, in addition to extending all of the cost control measures put in place earlier, the City Administration revived the strategy used in the prior year, and imposed new cost reduction management plans on all departments that required the identification of cumulative \$9 million reduction plan from all departments that translated to a 1.25% reduction in Public Safety and a 3% reduction in all other CSAs. The savings produced from these reductions were placed in reserve for the 2004-2005 problem as part of a mid-year budget action.

Each February, the City's Five-Year General Fund Forecast is updated through a detailed re-estimation of each and every expenditure and revenue line item with the latest information. In February of this year, the updated 2004-2005 General Fund forecast indicated that although the gap had been reduced slightly, to \$76 million, the City still faced a huge challenge, particularly in light of the additional risks not even included in this estimate presented by pending labor contract negotiations and the still unsettled State budget situation. In February, confronting the continuing lack of improvement in the general economy and the reality of just

how severe the City's fiscal problems were, the City Council directed the Administration to bring forward recommendations that immediately eliminated 100 General Fund vacancies (Table 2) to further close the City deficit (See Appendix: *2003-2004 General Fund 100 Vacant Positions Elimination Plan* for details, Attachment B for all City Council referrals, and Attachment C for City Auditor referrals.) As part of the same Council action directing the elimination of vacancies, the Administration was directed to bring forward proposals that were likely to be included in the 2004-2005 Proposed Operating Budget. Those recommendations were developed and were approved by

General Fund Vacancies Eliminated February, 2004 (Table 2)	
CSA	Positions
Aviation Services	0.00
Economic & Neighborhood Development	4.00
Environmental and Utility Services	0.00
Public Safety	17.00
Recreation and Cultural Services	34.52
Transportation	12.00
Strategic Support	20.50
Council Appointees	11.00
Total	99.02

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BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

City Council on May 4, 2004. (See Appendix: *2004-2005 Proposed Operating Budget: Accelerated Proposals*). These actions, achieved approximately \$6.3 million in projected 2004-2005 General Fund savings. This reduced the final General Fund shortfall (Tier One) necessary to resolve in this Adopted Budget to \$69.8 million.

As was the case last year, how and when to use the reserves which had been accumulated in anticipation of the budget situation was a key consideration in formulating an appropriate General Fund balancing solution. Given the one-time nature of these reserves, however, it was important that the reserves be part of an overall strategy designed to help bring the City's structural problem under control. As pursuit of such a balanced course of action, in February, the City Council directed that the Economic Uncertainty Reserve, one of our key reserves, be used to balance the 2004-2005 Operating Budget *if* the City's bargaining groups would agree to a zero percent increase by April 1st. This was an attempt to tie the use of one-time budget balancing action, use of reserves, to a longer term cost control strategy that would help mitigate the necessity for severe service reductions. By April, 2004, however, only one of the City's bargaining groups, The International Union of Operating Engineers, Local No. 3 (OE3) had approved terms of a new contract, that *did* include a zero percent in the first year. This was in addition to a decision made by the Administration that no compensation increases were to be provided for members of the City's management team. But because all of the other labor groups declined to agree to this offer, use of the Economic Uncertainty Reserve as a balancing strategy was not included in the City Manager's Proposed Budget General Fund Balancing Strategy. (Note: as a result of City Council approval of the Mayor's June Budget Message a portion of the Economic Uncertainty Reserve (\$5.0 million) was utilized for final budget balancing actions. In addition, the Adopted Budget also included the use of the entire \$16.5 million 2004-2005 Future Deficit Reserve set aside specifically for 2004-2005 budget balancing purposes.)

Throughout the budget process, the City's *StraightTalk on the Budget* communication effort encouraged employees to participate in the process by submitting budget suggestions. Many City employees responded to the invitation with cost savings suggestions to address the City's budget shortfall. Each of the suggestions was reviewed to weigh the potential cost savings against possible service impacts. Some also warranted discussions with the various City bargaining units. The most frequently suggested ideas included:

- Early retirement programs
- Mandatory/voluntary reduced workweeks and unpaid furloughs
- Deferral of general wage increases/cost of living increases
- Increase employee cost sharing for various services/benefits
- Identify opportunities to have contracted services performed by employees

In developing the 2004-2005 Adopted Operating Budget, the primary goal was to make sure that the resources that were available were focused on vital core services and Council priorities. Inevitably, as we faced the task of bridging another year of major General Fund shortfalls, every CSA including Public Safety was asked to participate with reductions and revenue enhancements. Tier One

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

reductions in Police and Fire were kept to a relative minimum in recognition of the City Council's expressed commitment to Public Safety, resulting in more severe service reductions in all other CSAs. The significant reductions approved for the non-Public Safety CSAs inevitably resulted, however, in Public Safety reductions making up the largest component in the *Compensation/State Budget Impact Contingency Plan* (Tier Two). In preparing the 2004-2005 Proposed Operating Budget, which formed the basis for the Adopted Budget, the Administration followed the principles established in the *2004-2005 City Manager's Budget Request* and the *Mayor's March Budget Message* (See Appendix: *Mayor's Budget Messages* for details), approved by the City Council on February 10th and March 23rd respectively. Among these principles were:

Budget Balancing Principles (Table 3)	
1.	Prioritize: continued provision of essential services to the community, reviving the economy, building strong neighborhoods, and stabilizing the City budget.
2.	Mitigate direct service reductions through the use of: ongoing expenditure reductions and new ongoing revenue sources; one-time expenditure cuts, one-time revenues; and strategic use of reserves designated for budget balancing purposes.
3.	Implement in the current fiscal year, those reduction proposals that would most likely be recommended for consideration as part of the 2004-2005 Proposed Budget.
4.	Implement fee increases to assure that operating costs are fully covered by fee revenue.
5.	Explore opportunities to establish new fees for services where appropriate, including, but not limited to, an Emergency Response Fee.
6.	Recommend deferrals for capital improvement projects that create negative impacts on the General Fund.
7.	Defer new program commitments, unless they stimulate the local economy and job creation and/or are funded through redeployment of existing resources.
8.	Focus service reductions first in those areas that are least essential.
9.	Emphasize quality over quantity—do fewer things, but do them well.
10.	Balance proposed reductions across the organization and employee groups, including a careful review of all non-essential overtime and non-personal/equipment expenses.
11.	Make every effort to eliminate vacant positions, rather than filled positions.
12.	Work together with employee bargaining groups to find ways to limit the number of employee layoffs.
13.	Continue to make employee involvement a priority for CSA budget balancing idea development, and ensure that an active budget communication plan with City employees is in place and utilized.

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

On an overall basis, the 2004-2005 Adopted Operating Budget relies on a combination of ongoing cost reductions, proposals for prudent fee increases, coupled with strategic use of reserves and one-time revenues. Reductions account for approximately one-third (32%) of the balancing actions. On the revenue side of the equation, a significant part of the solution is the transferring of revenues to support the General Fund. Among these transfers is an \$8.8 million reduction in the Traffic Capital Program Budget over the next 2 years and elimination of vehicles earmarked for replacement in 2004-2005 for the general fleet thereby returning \$1.25 million to the General Fund from the Vehicle Maintenance and Operations Fund. Also included are actions to transfer a portion of the projected over-collection of Construction and Conveyance Tax Funds to help balance the General Fund and the conversion of uncommitted funds from that same source to a reserve for future Furniture, Fixtures and Equipment (FF&E) expenses.

Among the budget reduction actions approved in this budget were a number of program changes which do cut costs, but were also devised to help deliver services more effectively—the most significant of these is from the Recreation and Cultural Services CSA to centralize services around 16 hub and 12 satellite community centers and four neighborhood centers. This reorganization provides for the continuation of After School and Senior Nutrition services, even as we close 8 small community centers and eliminate 35 positions. In the Public Safety CSA, another creative solution shifted duties associated with the Curfew Program and patrolling the Entertainment Zone to on-duty patrol personnel, thereby eliminating \$576,000 in costs.

Service reductions contained in this operating budget are serious, however, and will be felt by our residents. They affect all levels of the organization from management to front line workers and affect every CSA. The magnitude of the problem we faced in balancing this budget by necessity focused the City Council decision-making process, not on whether to cut, or even where to cut, but rather on how much to cut in each of the CSA's. In the Recreation and Cultural Services CSA, Parks Maintenance was downsized. In the Public Safety CSA, several specialized programs were reduced or eliminated to maintain the core functions of the department. In the Transportation Services CSA, the Traffic Capital Improvement Program was reduced, as were the Landscape and Pavement Maintenance programs. A spending cap will be imposed on City-reimbursed sidewalk repairs. In short, there were no good or easy choices this year.

The table below shows the matrix of Tier One balancing strategies and the dollars associated with each action.

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BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

General Fund Budget Balancing Plan (Table 4)	
SOURCE OF FUNDS	(In \$000s)
2004-2005 Future Deficit Reserve (one-time)	16,536
Cardroom Revenue (one-time)	6,250
Economic Uncertainty Reserve (one-time)	5,412
Business Information Management System	1,450
Sale of Surplus Property	1,000
Transfer from Other Funds	8,038
Miscellaneous	7,088
Total Revenue & Reserve Solutions	45,774
USE OF FUNDS	
Position Eliminations/Efficiencies	(12,014)
Non-Personal/Equipment Reductions	(4,975)
Funding Shifts	(3,192)
Mayor, City Council and Appointees	(2,543)
Use of Reserves (Committed Adds)	(1,753)
Management Pay Increases/PDP/Furlough	(2,172)
New Facilities (Operations & Maintenance)	1,025
Miscellaneous	1,564
Total Expenditure Solutions	(24,060)
Total Balancing Solutions	69,834

Full-Time Equivalent position (FTEs) reductions approved as part of this adopted budget are shown below:

Position (FTE) Reduction Impacts (Table 5)	
Tier	FTEs Impacted*
Tier One	235
Tier Two	265
Total	500

**FTEs include both vacant and filled positions.*

The position reductions in the Tier One adopted plan were in addition to the 99 positions that were previously approved for elimination on March 23, 2004, 92 positions which were eliminated in 2003-2004, as part of the State Rebalancing Plan and the planned removal of previously defunded and limited-dated positions. As Figure 5 demonstrates, the reductions imposed in 2003-2004 and those approved in this Adopted Budget, have combined to reduce the City's total position count significantly, from the 2003-2004 Adopted Budget level of 7,213 down to 6,787 (a net reduction of

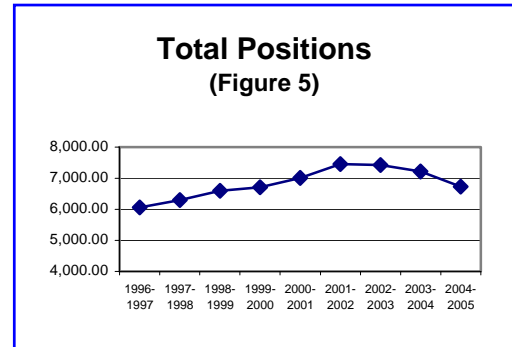
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BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

426). The result is a workforce roughly equivalent to the number of positions employed by the City five years ago, in the 1999-2000 fiscal year.

As noted earlier, the 2004-2005 Adopted Operating Budget was necessarily balanced with assumptions about things that have yet to occur, but which could have significant impacts on this operating budget even after the City Council approves the final budget recommendations in June. Chief among these were future budget actions of the State, as well as changes to the assumption that compensation levels for City employees will remain at current levels in 2004-2005. As described previously, therefore, consistent with the Mayor's March Budget Message, a 2004-2005 *Compensation/State Budget Impact Contingency Plan* was approved to be considered in response to State actions, or unscheduled employee compensation increases. A review of this list clearly reveals that the reductions contained in this contingency plan would fall most heavily on the Public Safety CSA – the inevitable result of having held back the more serious Public Safety reductions in the Tier One recommendations.



Fee & Rate Increases

As part of budget processes of the last several years, Council initiated a strategy for phasing in increases to selected rates and fees across several years – once operational efficiencies had been demonstrated – to achieve cost recovery while softening the impact on customers. The 2004-2005 Adopted Budget continues this sound policy with approved increases to certain fees in Development Services (particularly Building, Fire and Planning) as well as to several user rates in the Environmental & Utility Services CSA.

Development activity (planning permit applications, building permits, plan reviews and inspection activity) has remained relatively constant over the past three years following the historic boom that ended in 2001. To address fees that had become seriously out of step with costs – in some cases up to 40% below cost recovery – Council adopted a plan, beginning in 2001-2002, for phased increases in Building fees and Planning fees. Consultation and education of our development partners and the industry have been ongoing to ensure that service delivery remains a key priority. The approved third phase of fee increases for Building fees (4.3%) and Planning fees (7%) included in the 2004-2005 Adopted Budget will bring these fees to essentially a full cost recovery level (99%). Specifics of these adjustments are addressed elsewhere in this Adopted Budget document, and more detail was provided in the 2004-2005 Fees and Charges Report that was published in early May.

The 2004-2005 Adopted Operating Budget also includes approval of the second year of a two-year Recycle Plus rate increase package approved by Council in 2003, raising rates by 9% next year. This will bring the program closer to cost recovery, while keeping the rates below the County-wide average in comparison to cities with similar services. The continued economic slump has resulted in higher vacancy rates and consequently lower levels of waste generation and disposal – and consequently reduced City revenues. The \$5.9 million generated by the approved rate increase will

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Fee & Rate Increases (Cont'd.)

offset this reduction in collection revenues, continue to move the program toward cost recovery, and bolster fund balances used for contingency reserves in the out-years. Additionally, the monthly cost for yard trimmings carts will increase to \$2.50 to achieve cost recovery for this subscription service.

Implementation of the third year of a three-year rate increase package approved by Council in 2002 for the Storm Sewer Operating Fund also was approved. Revenue generated by the 4.5% increase will be used for a modest capital improvement program and to provide \$500,000 to replace and rehabilitate aging storm pump stations (nine of 21 are 40 years old or older), thereby reducing the risk of localized flooding in portions of the City.

The City's two water suppliers have again raised wholesale water rates by 7.6% and 13% respectively. The purchase of water accounts for over half of the budgeted use of funds for the City's Water system, and is by far the largest single expenditure. A 4% adjustment to water rates was approved in the Municipal Water System's service area to offset the cost of these increases. Also approved was the indexing of wholesale recycled water rates to match the rates charged by the Santa Clara Valley Water District for untreated water.

A multi-year package of increases to the Sanitary Sewer Service and Use Charge fees was also approved. This increase was contemplated but not included in last year's budget process. After 10 years without a rate adjustment, the three-year package of 4.5% annual rate increases approved in concept as part of this budget is necessary to address aging infrastructure needs at the treatment plant and improve its reliability in wet weather, cover increased costs to operate and maintain the sewage collection and treatment systems, and ensure the fiscal integrity of the fund.

Recreation and Cultural Services

In this third year of budget reductions and with a work force already reduced last year by 98 positions, the Recreation and Cultural Services CSA carefully assessed priorities and made difficult choices in reaching its recommendations for service reductions. The 2004-2005 Adopted Operating Budget includes reductions of almost \$7.5 million and elimination of 115.56 positions. As this budget was developed, we continued to look for new service delivery partners, to emphasize cost recovery, to reassess capital projects and to identify residents' priorities. Major core services that will be preserved include clean and safe parks, school safety, protecting youth and seniors, and building strong neighborhoods.

Moving toward self-service libraries is a key strategy designed to protect other vital functions at library facilities. Nonetheless, a staffing reduction of 25 positions and strategic support service reductions in the library system in the amount of \$1.5 million were approved. Reduced hours of service will occur at some service points in the new Dr. Martin Luther King, Jr. Library, but at least in the Tier One budget, branch hours will remain unaffected. While the Bookmobile and Disability Outreach Services will be eliminated, Library staff will continue to mail requested items to customers. The Library's Partners in Reading literacy program and PRNS' Office on Early Care and

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Recreation and Cultural Services (Cont'd.)

Education will be merged and managed by Library Services. The current service of reserving media materials (DVDs, CDs, etc.) and having them transported to the preferred branch will be eliminated. The materials will, of course, remain available at their current locations. A proposal to close all branch libraries one day per week would only be considered in the event Tier Two proposals are required.

One of the most noticeable changes in this CSA's service delivery program will be that provided by community center services. Currently, 42 community centers, satellite community centers, and neighborhood centers are operated throughout the City by 115 staff. Community centers are fully staffed and offer a full range of programming, while satellite community centers may or may not be staffed, and neighborhood centers are generally non-staffed small facilities available for the community to rent. A new "hub" model was approved that will consolidate community center facilities and staffing, focus on customer-identified priority programming, and generate close to \$1.8 million in operating savings to the City. Sixteen "hub" community centers will operate under the new model, supported by 12 satellite community centers, four neighborhood centers and a complement of 77.5 staff. This model focuses on quality over quantity of programming, and core services will focus on serving youth, seniors and disabled populations.

While priorities will still be focused on preserving services to youth and seniors at these community centers, some reductions will be inevitable in school-based programs. This budget includes the elimination of five Safe and Accessible Integrated After School Program sites at elementary schools, affecting approximately 250 students.

Finally, per Council direction, a 12.2% citywide reduction in support to Community Based Organizations (CBOs) occurs in Books Aloud, the Arts Venture Fund, and the Festival, Parade and Celebration program, as part of the overall direction to reduce CBO funding citywide by the average percent reduction suffered by all the non-public safety CSAs. Performance measures related to grant funding are unlikely to be affected because these measures are tied to the ratio of City funding to non-City funding. Despite the larger number of groups expected to apply for grants in 2004-2005, funding from non-City sources also has declined and ratios are therefore likely to remain constant. In addition, some arts programs will be reduced, and the Office of Cultural Affairs will eliminate two positions and shift focus from development activities to servicing core programs, such as grants, special events, arts education and public art. Avoiding reductions to core programs should minimize any decline in performance measure results.

In the area of neighborhood and regional parks maintenance, a reduction of \$.8 million was approved. That reduction will include the elimination of nine positions, and service impacts will include reducing the frequency of trash removal, watering, and graffiti abatement. Also included in this area was the elimination of five positions that provided grounds maintenance at San José's major cultural facilities, and to explore consolidation of General Services-Neighborhood Parks Maintenance with PRNS-Regional Parks Maintenance. The consolidation of regional and neighborhood parks will be performed with priority placed on keeping parks and facilities clean and

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Recreation and Cultural Services (Cont'd.)

safe. To avoid additional service level reductions, fees have been increased where possible, including aquatic fees and reservation fees at regional parks.

Though these are very difficult economic times and challenging budget decisions to make, the Recreation and Cultural Services CSA has taken great strides to rethink City service delivery, build on and create new partnerships, and connect with residents and stakeholders to identify neighborhood priorities. We believe this new model of service delivery provides a solid foundation to build on and improve the delivery of recreation and cultural services to our community when and if additional funding again becomes available.

Building Stronger Neighborhoods

Even with the restrictions imposed by the current fiscal environment, the City's commitment to our neighborhoods remains strong, as reflected in this adopted budget. The Strong Neighborhoods Initiative (SNI) is the core of the City's effort to build strong neighborhoods by developing community leadership and working collaboratively to deliver City services in response to neighborhood priorities.

In the 2004-2005 Adopted Operating Budget, SNI will continue to provide meaningful and visible change in San José communities in the five categories established by residents: 1) affordable housing; 2) clean neighborhoods; 3) safe and attractive residential streets; 4) vital business districts; and, 5) parks and neighborhood services.

Over the course of the next five years, the City and the San José Redevelopment Agency had been scheduled to invest more than \$100 million in these neighborhood priorities. Reductions to the property tax base of the Agency, along with threatened State budget actions potentially further reducing Agency revenue streams have clearly endangered the City's availability to deliver all of the promised investments, and the difficult budget times will significantly challenge the City organization to maximize service delivery by carefully aligning limited resources to neighborhood priorities. Thus as the SNI work effort evolves from planning to implementation, the 2004-2005 Adopted Operating Budget includes a reassessment of staff capabilities and resource allocations. As a result, the SNI core team was reduced by 12.25 positions. The restructured team will reflect the City and Redevelopment Agency "one voice" approach to service delivery, aligning funding sources with work performed, and creating implementation teams that balance skills in the areas of project management and policy analysis. As approved, the new team will consist of 20 well-trained and experienced staff supporting a new neighborhood configuration merging 19 neighborhood areas into six consolidated areas, for a General Fund cost savings of \$497,000. These smaller and more flexible and agile teams will provide greater accountability, clearer lines of responsibility and will work from the perspective and view of the neighborhood "driveway". Their efforts have also been integrated with the CIP Action Team for delivery of neighborhood priorities and the SNI Business Plan has been aligned with the seven CSA business plans to integrate service delivery.

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Building Stronger Neighborhoods (Cont'd.)

Examples of this more effective service delivery model can be found in existing programs such as the driveway team, the vehicle abatement spotters project, retail and small business development teams, residential parking enforcement and neighborhood community policing. Staff resources have also been realigned at the Neighborhood Development Center (NDC) to complement the approved SNI restructuring. Though reduced in total funding by \$49,000, the new NDC team will be better organized to support neighborhoods. Community Activity Workers currently assigned to individual neighborhoods will be reassigned to augment the existing staff at the NDC and create a larger pool of staff resources. Providing service to both SNI and non-SNI areas alike, the NDC will serve as a “hub” for neighborhood organizing, leadership training, resources for special events, technology resources, and access to community programs. This model will afford the opportunity for better coordination and increased flexibility in the City’s response to neighborhood activities. The final level of funding available to actually implement SNI priority projects will, however, not be finally determined until sometime this fall when the Redevelopment Agency’s budget is scheduled to be finalized. No matter what the final level of funding for actual infrastructure investment may turn out to be, however, strong neighborhood programs will remain a top priority for this City.

Economic and Neighborhood Development

The Adopted Operating Budget responds to the economic challenges facing San José by focusing and prioritizing activities of the Economic and Neighborhood Development CSA around the Economic Development Strategy adopted by the City Council in December 2003. Budget actions in this CSA therefore focused on 15 strategic initiatives to stimulate economic growth, as well as provide an adequate supply of safe, quality affordable housing, and continue to assist and strengthen our neighborhoods – all while endeavoring to generate new operating revenues for the City, reverse the trends of declining sales tax and transient occupancy tax, and provide long term increases in property tax revenue.

The approved budget emphasizes the four strategic initiatives that the City Council identified as priorities for 2004-2005:

- Develop strategic partnerships with San José State University and other universities to drive innovation and economic impact;
- Evolve and position downtown as a unique creative and cultural center of Silicon Valley;
- Support the start-up and growth of local businesses, small and large, in tech as well as non-tech fields; and
- Diversify San José’s economic base and preserve/create middle-income jobs.

The adjustments in this CSA eliminate 24 positions and save just under \$5 million through increased efficiencies and service delivery consolidation, cost recovery efforts through fees for service, renegotiation of contracts and leases, reductions in subsidies to outside agencies, and staff reductions and restructuring. The overall intent was to maximize limited resources while minimizing service level impacts. While two filled administrative positions were approved for elimination in the

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Economic and Neighborhood Development (Cont'd.)

Office of Economic Development, the City's retail initiatives will be maintained under the one-voice mantle, by combining existing resources in Economic Development and the San José Redevelopment Agency to advance the effort.

The impact of the continued economic decline on Convention Center operations and revenues is reflected in the budget adjustments, which eliminated 16 positions (7 vacant and 9 filled) from Convention Center Services. The Department looked internally to identify efficiencies that would maximize its ability to reduce expenditures and maximize support of convention services so that, even with this reduced staffing, customer service and satisfaction levels are expected to remain stable. (Note: subsequent to the adoption of this budget, a contract to operate the Convention Facilities was awarded to Team San José, a local non-profit organization, under a five-year management agreement. This replaced the departmental management structure reflected in this adopted budget.)

Other adjustments in this CSA included expansion of the Silicon Valley Workforce Investment Network (SVWIN) program to emphasize assisting residents in accessing employment opportunities in bio/life sciences, software, retail, healthcare and hospitality, and reducing local small business chambers of commerce and Convention and Visitors Bureau subsidies by 12.2%, in accordance with the City-wide reduction in support to community based organizations.

The impact of San José Redevelopment Agency funding reductions on the City's housing effort are reflected in the Housing Department budget, where a \$393,000 reduction was approved. A reorganization and management consolidation within the Housing Department (eliminating three and reallocating five positions) will improve efficiency and enable staff to continue to lead the region in affordable housing. Housing construction in the downtown areas continues at a strong pace, with over 600 units completing construction and another 1,700 in the planning and construction phase for 2004-2005. The sale of three City-owned parcels will also enable additional development of affordable housing units in other areas throughout San José. City loan and grant programs to increase and preserve the affordable housing stock will continue, although at a reduced level. Reduced Community Block Grant Funds have resulted in the elimination of two positions in Housing rehabilitation programs, which will continue to respond to emergency home repair needs of the City's lowest income residents.

In the area of long-range planning and code enforcement, activities will shift from proactive enforcement to a more reactive model, however health and safety protections will not be sacrificed. Several balancing strategies are reflected in this budget, including staff reductions and redeployments, a phase-in of fee increases to approach 100% cost recovery and the use of reserves in fee revenues built from prior years. In addition, a surcharge will be established to fund the consultant costs of the next comprehensive General Plan update, scheduled to begin in 2006.

The approved elimination of two positions in Long Range Land Use Planning and the Strong Neighborhoods Initiative will effectively mean a reduction in service within the Special Projects/SNI teams in the Planning Services Division. However, SNI has largely moved from the

2004-2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Economic and Neighborhood Development (Cont'd.)

planning phase into an implementation phase, and staffing reorganization in this program reflects this change.

Excellent customer service with a predictable and timely development review process will be maintained by emphasizing a facilitation approach and providing seamless “one-voice” service delivery. The ongoing dialog with development customers to set service goals and budget levels, resolve concerns and set priorities for continually improving the development process and customer service also continue. Major long-range planning efforts for Evergreen, Coyote Valley and the North San José will move forward.

Public Safety

No area of public service is more essential to the public welfare than public safety, and the services in this CSA remain the Council’s clear top priority. Yet, given the magnitude of the current shortfall facing the City, not even this City Service Area was immune to the need for cost-saving proposals. Preserving essential emergency services was accomplished for 2004-2005, at least in the Tier One budget proposal, mainly through redeployments from non-emergency response resources, reductions in certain specialty units, and implementation of various cost-saving measures that have limited impact on high priority service delivery.

A combination of actions resulted in the elimination of 10 positions and savings of about \$5.9 million in 2004-2005. Reductions include redeployment of police positions in non-patrol functions to patrol duty, elimination of a portion of the Neighborhood WATCH Program, realignment of replacement cycles for unmarked vehicles and patrol motorcycles, and freezing or eliminating administrative positions in both Police and Fire. The CSA is also moving ahead with consolidating grant writing within the Police Department and exploring other opportunities to consolidate capital project management and public safety education functions.

In addition, one-time savings of about \$1.8 million will be realized in 2004-2005 through the approved temporary reduction of one Police Recruit Academy, one Fire Recruit Academy, and one Fire Engineer Academy and through temporary reduction and funding shifts (from General Fund to Fire Construction & Conveyance Tax Fund) for fire apparatus replacements. The CSA will receive some administrative support funds from the Urban Area Security grant from the Federal government. These funds will reimburse the cost of managing this grant program for the San Francisco Bay region in 2004-2005 so that the City’s General Fund will not be used.

Adjustments to increase various Police Department fees were also included to generate revenue of about \$130,000, an increase of 4.7% above the 2003-2004 Adopted Budget. Included were increases to fees that the City Council previously approved to be phased in over a period of three or four years such as the Amusement Exhibitor and Location Permits, Amusement Device fee, and Cardroom Work Permit fee.

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Public Safety (Cont'd.)

The full implementation plan associated with the passage of the Neighborhood Security Act Bond Measure is contained in the Adopted Capital Budget and Capital Improvement Program (CIP). This bond measure, which authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund Police and Fire capital improvements, significantly increased the resources available to add, relocate, and renovate public safety facilities. The infrastructure improvements that can be implemented as a result of this funding will result in better response times to emergency incidents, enhanced public access to services, and better working conditions for public safety employees. The Adopted CIP does take into account, however, deferring for one or more years those projects with O&M impact on the General Fund.

It should be noted, however, that with its 2004-2005 approved funding level, the Public Safety CSA will:

- Provide essential emergency services in a timely and effective fashion.
- Continue to meet EMS Paramedic Agreement contractual requirements.
- Maintain and strengthen school partnerships related to gang and drug activity and crisis management.
- Continue to protect the health and safety of Public Safety personnel.
- Move forward with Bond projects that do not adversely affect operating expenditures.
- Maintain and strengthen partnerships for identifying potential terrorism threats and Weapons of Mass Destruction (WMD) responses.
- Expand opportunities for public outreach and training as feasible to make residents more capable of maintaining their individual safety.
- Provide Fire Special Operations response for incidents with specific response needs such as urban fire and rescue, high-rise operations, hazardous materials incidents, aircraft responses, wildland fires, etc.
- Effectively investigate arson fires and aggressively pursue, apprehend, and prosecute suspects in these incidents.
- Use grant funding to pursue inter-agency communications projects, in compliance with Department of Homeland Security directives.
- Continue to put San José in the forefront of Homeland Defense in Northern California by continued active participation in the FBI's Terrorist Task Force and strong linkage with Homeland Defense.

However, we must repeat what was noted earlier. As indicated earlier in this message, if additional cuts are required due to unscheduled employee compensation increases, and we are forced to turn to the previously discussed contingency plan, this will require reductions that would fall most strongly in the Public Safety CSA.

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Aviation Services

The importance of the Norman Y. Mineta San José International Airport to the local and regional economy was reinforced this past fall during the City Council's Getting Families Back to Work Study Sessions and Council adoption of the Economic Development Strategy. San José's competitiveness as a global business center and travel destination clearly hinges on the City's ability to develop and operate a world-class airport, as demonstrated by these policy initiatives. While our goals for the Airport are high, the sustained economic downturn has created challenges to realizing the Airport's potential. Since September 11, 2001, the Airport has experienced a serious decline in passenger traffic to levels similar to 1998-1999, roughly a 22% drop from the 2000-2001 high of 13.9 million passengers. While passenger traffic has recently shown some indication of growth from 2003, no significant increase is assumed during 2004-2005.

With the City Council's recent certification that the City has met the Airport Security and Traffic Relief Act (ASTRA) requirements, the City is now embarking on a major capital program to construct the new North Concourse, followed over the next several years by the South Concourse and Central Terminal. The North Concourse will provide the space needed to meet federal security requirements for the permanent installation of explosive detection equipment and for an automated in-line baggage screening system. These improvements will enhance customer service and reliable security processing while reducing ongoing costs for temporary facilities.

Early in the budget process, the Aviation CSA projected a 2004-2005 shortfall of \$21.1 million. A series of actions were taken during the fiscal year to address the deficit, including the implementation of an Airport cost reduction management plan with targeted expenditure reductions of \$5.2 million and a shift in debt service timing that creates \$4.2 million in one-time savings. Projections for both base revenues and expenditures were updated in January, further reducing the deficit by \$2 million.

In 2004-2005 the funding gap will be further closed with the recognition of \$1.7 million in additional Passenger Facility Charge reimbursements, the use of \$5.4 million of reserves, and \$1.2 million in reductions. The reductions are largely related to contractual service cutbacks and include elimination of curb monitoring staff plus reductions to terminal support, building and maintenance services. In addition, a \$426,000 reduction has been taken in the Airport Customer Facility and Transportation Fee Fund (Rental Car Transportation Fund) to bring shuttle service hours in line with both customer demands and revenue levels. All these actions combined have allowed the City to balance the Aviation Services 2004-2005 budget with a minimum impact to customer service levels.

These strategies place demands on staff to be innovative and creative in meeting the needs of our customers so that they will continue to choose San José as their airport of first choice. Cost management and control will continue to be a priority for the organization, and is vital so that the CSA can continue to be responsive to our customers, the community, and our partners. Customer service measures such as signage, interim facility modifications, and beautification of construction areas will help mitigate the disruption caused by aging infrastructure and intensive construction.

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Aviation Services (Cont'd.)

Limited business development resources will be focused on attracting new air service, such as the recent addition of JetBlue Airways service to New York's JFK Airport. In an increasingly global business environment, the enhancement of air service to key trade centers, including both domestic and international service, will be a key economic development objective. Finally, the City's commitment to operating the Airport as a good neighbor will continue through the acoustical treatment of properties in the expanded eligibility area. Construction on 313 units will be completed in 2004-2005, with an additional 238 units (primarily historical properties) awarded during the year. The Airport Neighborhood Services Group, which leads the Airport's good neighbor effort, also will continue to perform outreach in the community by providing information and receiving input on proposed development and operational changes at the Airport.

Transportation Services

To continue to meet the basic needs of residents during this sustained economic downturn, the Transportation Services CSA adjustments for 2004-2005 include difficult tradeoffs among preventative maintenance, long-term pavement rehabilitation, education programs, planning, and technology-based programs.

Adjustments for this CSA structure services around performance outcomes and prioritize services to minimize customer impact and retain the long-term condition of the City's transportation assets. Fees have been increased where possible, vendor contracts eliminated to bring service functions in-house, and staffing levels reduced to correspond with the current levels of funding resources available for CIP programs and projects. In total, 19.1 positions have been eliminated as part of more than \$2.7 million in approved reductions. As a result, there will inevitably be a decreased ability to perform preventive maintenance on pavement and landscaping that will exacerbate conditions unless funding and staffing levels can be restored.

However, despite a reduction in funding levels due to declining private development activity and fewer regional transportation grant monies, the City will continue to provide viable transportation choices to San José residents in 2004-2005. As explained earlier in this message, the Traffic CIP faced a significant reduction. The 2004-2005 Adopted Budget required a significant realignment of staffing to address the reduced workload. A total of 11 positions (six filled) were eliminated to achieve \$930,000 in savings.

Fee increases and the elimination of vendor contracts as approved will enable the City to continue to deliver safe, efficient and neighborhood-friendly transportation operations. Increased penalties on 16 types of parking infractions will bring San José's penalties in line with other Bay Area cities, while still remaining slightly below the average except in the area of safety-related penalties, which will be somewhat higher. In another cost-saving effort, City parking compliance staff will patrol City garages in 2004-2005, thereby eliminating a vendor contract without impact to this service function and generating a net benefit to the City of \$185,000. Finally, the elimination of 2 positions in the areas of Intelligent Transportation Systems will reduce the Department's ability to pursue service level enhancements.

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Transportation Services (Cont'd.)

While the 2004-2005 Adopted Operating Budget adjustments do allow the CSA to preserve and improve City transportation assets, residents will notice cuts in pavement maintenance and tree services. Funding for pavement sealing will be reduced by \$543,000 in the Capital and Operating budgets combined, while investments in corrective work will be maintained. The percentage of streets in acceptable or better condition will fall from 87% to 84% in 2004-2005, as funding for the 10-year street maintenance recovery plan will be severely reduced. We remain hopeful that the federal transportation reauthorization will provide critically needed resources, but timing is uncertain. The State's continued circumvention of Proposition 42 funds exacerbates this funding shortfall. Resources will be maintained, however, for emergency work and responses to citizen complaints.

Staffing reductions in the area of traffic signs and markings will result in 71% of markings meeting guidelines in 2004-2005, down from 77% in 2003-2004. Safety-related repairs of signage will continue to be resolved promptly.

The Landscape Maintenance Program budget will be reduced by \$504,000, and the elimination of three positions in this program will reduce the frequency of landscape services from every three weeks to every four weeks. The percentage of landscapes maintained in good or better condition is expected to fall to 68% in 2004-2005 and continue to decline in subsequent years until funding can be restored. The City's popular sidewalk repair grant program will continue, but with a \$1,000 reimbursement limit (higher for properties with large frontages) to ensure availability of grants to the maximum number of residents.

Environmental and Utility Services

The Environmental and Utility Services CSA provides wastewater, garbage and recycling, storm water runoff, sanitary sewer, water and other neighborhood-based services that protect the environment, assist in the City's strong neighborhoods programs, and are necessary building blocks in the City's economic development strategy.

While the economic downturn has had a relatively limited impact on revenues for this CSA compared to those in the General Fund, a comprehensive review of programs was nevertheless undertaken to achieve the targeted reductions. Employees participated in several rounds of sessions aimed at reducing or enhancing services based on priority needs assessments. The net effect of all the adjustments – reductions and additions – is a reduction of just over \$2 million in ongoing savings across the four special funds, most of which will have limited service level impacts. Among the actions approved are:

- Converting seven vacant positions to provide front-line maintenance services at the Water Pollution Control Plant.
- Continue to hold other necessary positions vacant to provide opportunities for employees displaced from other CSAs.

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Environmental and Utility Services (Cont'd.)

- Adding funding for infrastructure maintenance, replacement and rehabilitation – primarily at the water pollution control plant and the storm sewer pump stations. Nine of the 21 pump stations citywide are over 40 years old and require significant rehabilitation.
- Expanding the street sweeping parking enforcement program by posting parking restriction signage on an additional 40 miles in targeted areas at a cost of \$213,000 – the second year of a multi-year strategy to boost the ability of street sweepers to clean neighborhood roads more thoroughly while preventing materials to pollute storm sewers and area creeks.
- Benefiting the General Fund through changes that include (a) restructuring the commercial solid waste franchise fee to generate \$490,000 in additional General Fund revenues, and (b) a funding shift of \$311,000 to the Integrated Waste Management Fund to protect neighborhood clean-up programs from General Fund cuts.
- Saving just over \$1 million across the CSA's special funds through efficiencies and reductions involving the water and watershed operations, marketing and outreach, and other support services.
- Saving another \$911,000 through reductions to the Water Efficiency Program, reflecting the City's success over the last 10 years in reducing flows to the treatment plant.

This CSA relies only minimally on the General Fund and instead oversees a set of user fees based on cost recovery models. As described in the earlier section on fee and rate increases, the following rate increases were approved:

- The second year of a two-year rate increase package approved by Council in 2003 will raise Recycle Plus rates by 9%, bringing the program closer to cost recovery while still maintaining rates below the Countywide average when compared to cities with similar services. The monthly cost for yard trimmings carts will increase to \$2.50 to achieve cost recovery for this subscription service.
- Funding the third year of a three-year rate increase package approved by Council in 2002 for the Storm Sewer Operating Fund. Revenue generated by the 4.5% increase will be used for a modest capital improvement program and to provide \$500,000 to replace and rehabilitate aging storm pump stations, thereby reducing the risk of localized flooding in portions of the City.
- A 4% adjustment to water rates in the Municipal Water System's service area will recover the wholesale water rate increases of 7.6% and 13% levied by the City's two suppliers. Also approved was the indexing of wholesale recycled water rates to match the rates charged for wholesale untreated water by the Santa Clara Valley Water District.
- After 10 years without a rate adjustment, a three-year package of 4.5% annual rate increases was also approved for Sewer Service and Use Charge fees. These funds are necessary to ensure the fiscal integrity of the Sewer Service and Use Charge Fund, to

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Environmental and Utility Services (Cont'd.)

address aging infrastructure needs and improve reliability in wet weather at the treatment plant, and to cover increased costs to operate and maintain the sewage collection and treatment systems.

Strategic Support

The former City Facilities and Equipment, Employee Services, and Finance and Technology CSAs now comprise the consolidated Strategic Support CSA. To assist front-line operating departments in serving the community, this CSA provides recruitment, training, purchasing, technology, revenue collections, facility and fleet maintenance, protecting and investing the City's financial resources, and other support services.

With the City's unprecedented investment in capital projects, including the opening of a new City Hall in 2005 that will be more than double the size of the existing facility, the Strategic Support CSA faces a major challenge – despite a growing inventory, with the implementation of this budget there will be far fewer resources for maintaining, staffing and providing technology at previous operations and service delivery levels. The approved budget reductions for Strategic Support total \$11.5 million and result in the elimination of 62.09 full-time positions, of which 33.11 were filled and 28.98 were vacant. This was in addition to 20.5 vacant positions that were eliminated in March 2004 as part of the Council's action to eliminate 100 vacant positions citywide. The savings from the 20.5 positions amounted to \$1.5 million. To gain efficiencies and address the technology needs of the new City Hall, as part of this budget, network engineers and technicians from throughout the City have been consolidated and centralized in the Information Technology Department.

This CSA also supports the delivery of capital projects. Because of the reduced number of projects funded in 2004-2005 Capital Budget, a significant rightsizing of Public Works staff was approved to better align staffing levels with the reduced workload, resulting in the elimination of 38 positions (11 filled) with a projected savings of \$3.5 million.

This is the third year of reductions, making it increasingly difficult to retain delivery of even basic core services at the desired level. Service impacts will be as follows:

- There will be further erosion of custodial services at City facilities and minor repairs will not be completed in a timely fashion.
- Additional reductions in fleet management staffing will impact timeliness of repair and decrease fleet availability. First priority will continue to be the repair of vehicles used for public health and safety.
- There will be further reductions to the number and variety of training courses. Computer training will be offered on a very limited basis. Training will instead be focused on three core programs: new employee orientation, mentoring, and the Leadership and Supervision Academy. In recognition of the Academy's success and the pivotal role it plays in meeting the future leadership needs of the organization, existing resources will be redeployed to offer two new programs that augment the

2004–2005 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Strategic Support (Cont'd.)

Academy – an advanced course in leadership and a formal mentoring program. Both of these programs are designed to build the skill level of existing employees to better equip them to compete successfully for higher-level management positions in the organization.

- Technology staffing will no longer be available to provide night/swing shift support. Resources to support departmental needs during normal working hours were also reduced, impacting response times for technical assistance or repairs.

Despite these major reductions, however, the CSA will generate an estimated \$990,000 in additional revenues by implementing a business tax amnesty program. It has been several years since the last program was undertaken, which yielded additional revenues to the General Fund.

CAPITAL BUDGET HIGHLIGHTS

Capital Budget Overview

The 2004-2005 Adopted Capital Budget totals \$1.23 billion, a decrease of 9% (\$122 million) from the 2003-2004 Adopted Capital Budget, which totaled \$1.35 billion. The 2005-2009 Adopted Capital Improvement Program (CIP) totals \$3.51 billion. This is a 13% decrease from the \$4.05 billion included in the 2004-2008 Adopted CIP. While this CIP is smaller than the one adopted last year, it is still one of the largest in the City's history, continuing the "Decade of Investment" that is transforming much of the City's infrastructure. The City is entering the fourth year in which the annual capital program has topped \$1 billion, and the Five-Year CIPs have been in the multi-billion dollar range. To put this level of investment in perspective, the total annual capital budgets leading up to this period were well under this billion dollar figure and it was not until 1998-1999 that the annual budget in the last decade broke the \$500 million mark. The healthy size of the CIP, however is largely due to a relative few major initiatives, including the expansion of the San José International Airport and the renovation and expansion of the City's parks and community centers, libraries, and public safety facilities. Many of the remaining programs are either flat or down slightly from prior CIP funding levels.

The expansion of the Mineta San José International Airport remains the largest component of the overall CIP. Approximately 40% of the 2004-2005 Capital Budget and 60% of the Five-Year CIP are dedicated to improvements at the Airport. In the near term, this program will focus on compliance with federal security mandates. The largest of these security projects, the North Concourse Building, includes a permanent automated in-line explosive detection system and security screening space.

As a result of the voter-approved bond measures, major investments also continue in the parks and community centers (\$228 million General Obligation bond measure), libraries (\$212 million General Obligation bond measure), and public safety facilities (\$159 million General Obligation bond measure). The 2005-2009 Adopted CIP allocates \$441.5 million from these sources. In addition, significant capital investments in the City's utility infrastructure are programmed in this CIP,

2004–2005 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Capital Budget Overview (Cont'd.)

including major renovations to the Water Pollution Control Plant, and the expansion of the water and sanitary sewer systems into the Edenvale and North Coyote Valley areas.

It is important to note that these capital investments are being made at a time of severe economic difficulty for the City and the region as a whole. This level of funding is possible only because a number of the programs have dedicated revenue sources that are not tied directly to the economy or reflect voter-approved General Obligation Bonds that have provided an influx of resources to improve our libraries, parks and public safety facilities. For those programs that do rely on economically sensitive revenue sources, the amount of funding available will be dramatically less than was available during the peak in the late 1990s through 2000-2001.

A thorough discussion of all Capital projects can be found in the 2005-2009 Adopted Capital Improvement Program budget document.

Operating Budget Impact

One of the major challenges in dealing with the contradiction between the availability of funding to improve our infrastructure and the daunting General Fund operating budget shortfalls has been to balance the need for the new and expanded facilities and the ability to operate and maintain these facilities. At the Council's direction on February 17, 2004 as part of the 2003-2004 Mid-Year Budget Review, the Administration again evaluated the capital projects with significant General Fund operating impacts and brought forward specific recommendations to further defer a number of projects that would have a negative impact if completed in the next few years. After careful analysis of the capital projects with operating and maintenance costs, the Adopted CIP incorporates project deferrals, schedule changes and other cost reduction strategies in the Library, Park and Community Facilities, Public Safety, and Traffic capital programs to lessen the General Fund operating budget impacts over the next three years. These strategies result in the avoidance of a total of \$2.0 million in General Fund operating and maintenance costs in 2005-2006, \$5.3 million in 2006-2007, \$2.6 million in 2007-2008, and \$2.5 million in 2008-2009.

A summary of the General Fund operating costs associated with capital projects programmed in the Adopted CIP is provided in Table 6 below. These costs incorporate the staffing reallocation, cost reduction and/or deferral strategies. The operating and maintenance costs that would result if these strategies were not implemented have also been provided for comparison purposes. Costs are shown starting in the year the projects will be finished and for the remainder of the five-year period. Any provisions for projects with operating and maintenance costs in 2004-2005 have been addressed in the Adopted Operating Budget. The operating and maintenance costs for projects that are being constructed by other agencies but operated by the City are also included.

2004–2005 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Operating Budget Impact (Cont'd.)

Projected General Fund Operating and Maintenance Costs (Table 6)				
Project Title	2005-2006	2006-2007	2007-2008	2008–2009
Civic Center*	\$ 7,653,000	\$ 16,210,000	\$ 16,404,000	\$ 16,609,000
Fire Facilities		\$ 1,077,000	\$ 6,005,000	\$ 7,314,000
Library Facilities	\$ 83,000	\$ 1,829,000	\$ 2,546,000	\$ 4,563,000
Parks Facilities	\$ 531,000	\$ 1,670,000	\$ 2,915,000	\$ 6,083,000
Parks Facilities – Other Agencies	\$ 250,000	\$ 855,000	\$ 894,000	\$ 1,074,000
Police Facilities	\$ 29,000	\$ 37,000	\$ 384,000	\$ 729,000
Traffic Projects	\$ 162,000	\$ 236,000	\$ 300,000	\$ 389,000
Traffic Projects – Other Agencies	\$ 59,000	\$ 148,000	\$ 155,000	\$ 162,000
Total	\$ 8,767,000	\$ 22,062,000	\$ 29,603,000	\$ 36,923,000
Total without Cost Saving Measures	\$ 10,727,000	\$ 27,392,000	\$ 32,187,000	\$ 39,459,000
Net Savings	\$ 1,960,000	\$ 5,330,000	\$ 2,584,000	\$ 2,536,000

* Reflects the estimated General Fund share of the Civic Center costs. These costs have not been discounted by the expected lease savings or other cost saving measures.

Capital Program Overview by City Service Area

Each of the City's 15 capital programs has been aligned to a particular CSA. Following is a brief discussion of significant issues and projects included in the Adopted CIP presented by CSA.

Aviation Services

The Norman Y. Mineta San José International Airport's 2005-2009 Adopted CIP totals \$2.1 billion. This program is focused on the implementation of security driven projects in the near term, with other projects programmed to coincide with anticipated passenger demand levels. The North Concourse is the largest security-related project in the CIP and will provide the permanent response to the federal Aviation and Transportation Security Act requirements. This project is scheduled to be completed in the 1st Quarter 2007.

Significant expansion projects are also programmed to be underway during this five-year period. These projects include the South Concourse and Central Terminal, the Rental Car Garage, the Short-Term Public Parking Garage, and the Double Level Roadway Decks and Ramps. Since the revenue streams and activity levels at the Airport have remained depressed since the events of 9-11, the schedules for most of the demand-driven projects have been adjusted outwards to reflect the demand reality. These schedules will continue to be adjusted as necessary to keep the anticipated demand for services and available revenue streams in alignment.

The Adopted CIP also includes \$56.2 million to continue the acoustical treatment of approximately 1,200 eligible properties.

2004–2005 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Economic and Neighborhood Development

The Economic and Neighborhood Services CSA includes the Developer Assisted Projects Capital Program. This program reimburses residential developers for construction of major City streets and encourages the undergrounding of existing overhead utilities. Major developer reimbursements for median island and center strip paving are scheduled for the Communications Hill and the Dairy Hill projects. In the Underground Utility Program, projects in the following areas are programmed in the CIP: Park/Naglee; Saratoga Avenue; Jackson/Taylor; and 4th/5th/6th/7th Streets.

Environmental and Utility Services CSA

The Environmental and Utility Services CSA includes the Sanitary Sewer System, Storm Sewer System, Water Pollution Control and Water Utility Capital Programs.

Sanitary Sewer System Capital Program: The objectives of this capital program are to rehabilitate large diameter sanitary sewers, reduce water inflow and infiltration in sanitary sewers, improve local neighborhood sewers, and extend sanitary sewers to new development areas. Major projects in the Adopted CIP include the completion of the Edenvale Sanitary Sewer, Phases VI and VII of the Fourth Interceptor, and Phases VB and VIB of the 84-Inch RCP Interceptor. In addition, several neighborhood sewer improvement projects are programmed in the East San José, Forest-Rosa, Hester-Naglee, Hobson-Walnut, Monterey-Riverside, Rosemary and Willow-Union neighborhood areas.

Storm Sewer Capital Program: The purpose of the Storm Sewer System is to collect storm water, separate it from the Sanitary Sewer System, and convey it to nearby creeks and rivers. A three-year rate strategy was approved by the City Council in June 2002 to increase the Storm Sewer Service Charge rate by 4% to 4.5% annually to ensure the fiscal health of the storm sewer system and continue a modest capital program. This CIP assumes the third year and final year of that three-year strategy but does not assume any rate action for the remainder of the CIP period. Without an additional rate increase, the capital funding available trails off to an insignificant level by the end of the five-year period.

To continue a modest investment in the capital infrastructure and ensure the fiscal health of the Storm Sewer Operating Fund, an additional 4.5% rate increase program for the 2005-2006 to 2007-2008 period will be brought forward for Council consideration next year. With the limited resources currently available, the major storm drainage improvement projects programmed in the Adopted CIP are as follows: Albany-Kiely; Fremont Street; Storm Pump Station Replacements; Willow Glen-Guadalupe, Phase II; Reserve for Alma Storm Drain; and Chateau Drive. Master plan funding is also included to identify future storm projects for areas in need of significant improvements.

2004–2005 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Water Pollution Control Capital Program: The San José/Santa Clara Water Pollution Control Plant (WPCP) is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. The Adopted CIP focuses on preserving the Plant infrastructure and capacity improvement projects. In order to fund the capital projects in the Adopted CIP, a three-year 4.5% rate increase to the Sewer Service and Use Charge fee was brought forward in the Proposed Budget and the first year of the increase was approved.

The major projects in the Adopted CIP include: Plant Reliability Improvements (\$57.0 million) to improve the Plant's ability to handle wet weather flows and to improve the reliability of several of the Plant's critical systems; Plant Electrical Reliability (\$20.0 million) to perform major upgrades and replacements of electrical systems; and Revised South Bay Action Plan (\$32.5 million) to complete the South Bay Water Recycling facilities in Santa Clara and Milpitas and the extension of a recycled water transmission line to serve the planned Metcalf Energy Center in South San José and the new City Hall.

Water Utility System Capital Program: The San José Municipal Water System provides water utility service to approximately 25,000 customers (approximately 100,000 residents) in five areas within the City of San José: Evergreen, North San José, Alviso, Edenvale, and Coyote Valley. Projects in the Adopted CIP include the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. Major projects include the completion of the \$7.7 million expansion of the water system to the Coyote Valley; security improvements; the Norwood Pump Station Replacement; the North First Street Parallel Main; the Nortech Parkway East Loop Main; and funding to start the Montague Turnout.

Public Safety

Public Safety Capital Program: The objective of the Public Safety Capital Program is to provide, maintain and improve facilities and equipment that support the delivery of effective emergency services to residents and visitors. The construction of a new police substation, four new fire stations and the relocation of six existing fire stations will provide the infrastructure to help meet this goal.

The major overhaul of the Public Safety infrastructure is possible only because the voters approved Measure O, the "9-1-1, Fire, Police, Paramedic and Neighborhood Security Act". This bond measure authorized the City to issue \$159 million in General Obligation Bonds to fund both Police and Fire Department capital improvements.

All of the projects funded by the Neighborhood Security Act Bond are scheduled to be underway during the next five years. These projects include the construction of a South San José Police Substation, three new fire stations, four community policing centers, and a driver safety training facility. The program also includes the relocation of six fire stations, the remodel of 17 fire stations and the 9-1-1 Communications Dispatch Center, and the reconstruction of a new Fire Training Center and one fire station.

2004–2005 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Parks and Community Facilities Capital Program: This program is responsible for planning and implementing the acquisition, development, and protection of parks, recreation facilities, and open space. There are 17 separate funds used to account for these projects, including 10 Council District funds, a City-wide fund for city-wide/regional facilities, a Parks Bond fund, and five special purpose funds, as well as contributions from the General Fund.

Proceeds from General Obligation Bonds provide the largest source of funding for this capital program. The Bond Fund will provide funding over a 10-year period to renovate 95 neighborhood park play areas, add a total of 164,000 square feet to nine community and senior centers, renovate or replace 28 park restrooms, build two new sports complexes, expand the City's trail system at five locations, enhance four regional park facilities, including improvements and renovations at Happy Hollow Park and Zoo. The 2005-2009 Adopted CIP includes \$151.2 million for the construction of bond projects. During this period, seven community centers will be renovated, two sports parks will be constructed, several City trails will be expanded, and three regional parks will be renovated. The Park Trust Fund as well as the Construction and Conveyance (C & C) Tax Funds also provide a significant amount of resources for capital improvements at various parks and community centers.

The 2005-2009 Adopted CIP incorporates changes that positively impact the General Fund Adopted Operating Budget. To more accurately reflect the actual resources necessary to deliver the capital program, 2.95 positions were shifted from the General Fund to the C & C Tax Fund. In addition, one-half of the excess C & C revenues anticipated for 2003-2004 was shifted to the General Fund. To minimize General Fund operating and maintenance costs over the next few years, the completion dates for four community centers (Hoffman/Via Monte, Mayfair, Roosevelt, and Willows) and two parks (Guadalupe River Park and Gardens and Maybury) were deferred.

Transportation Services

The Transportation Services CSA includes the Parking and Traffic Capital Programs.

Parking Capital Program: The Parking Capital Program's primary responsibilities are to maintain and improve existing facilities, upgrade and replace both on-street and off-street parking equipment, and develop parking facilities. In 2001, a Parking Management Plan was developed to address both short-term and long-term parking needs. The Parking Management Plan anticipated approximately 3,125 new parking spaces would be needed by 2005 to meet short-term downtown growth and that an additional 1,500 spaces would be needed by 2008 to address future office development. Since its approval in 2001, schedules and priorities of projects spelled out in the Parking Management Plan have been significantly impacted by the downturn in the economy as well as by changes in the supply of parking. As a result of the changing environment, the City Council/SJRA Board directed staff, in coordination with the Downtown Parking Board, to track key economic and parking information. Using this information, as part of the 2004-2005 budget process, a series of economic and parking demand triggers was approved by the City Council as a way to gauge changes in the local economy and to initiate parking development at the right time. In the interim, the Adopted

2004–2005 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

CIP includes a limited number of projects to continue initiatives that are underway and to perform ongoing facility improvements.

Traffic Capital Program: The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sensitive surface transportation system, consistent with the goals and policies of the City's General Plan. In the 2005-2009 Adopted Traffic CIP, \$205.7 million is allocated for the purposes of expanding and enhancing the transportation system. These resources are programmed to ensure that the transportation system supports the economic competitiveness of San José and provides residents with safe and attractive street facilities in their neighborhoods.

The Traffic CIP includes funding for the build out of the major street network (\$34.0 million); enhancements to the environment (\$10.6 million); maintenance activities (\$20.6 million); an array of operations and safety projects at the neighborhood level, including traffic calming, sidewalk, curb and gutter repair, bicycle and pedestrian facilities, new traffic signals, and street lighting (\$49.5 million); rehabilitation projects (\$4.5 million); funding to support the City's contribution to regional highway and transit systems (\$7.5 million); and planning and engineering for local and regional projects (\$27.3 million). In addition, to support the City's Council-adopted priorities in the Valley Transportation 2030 Plan, an \$11.3 million reserve is included in the Adopted CIP to provide necessary local matching funds.

As part of the General Fund budget balancing plan, the transfers from the Construction Excise Tax to the General Fund for general purposes were increased from \$6.8 million in the 2004-2008 CIP to \$9.0 million in the 2005-2009 CIP. In 2004-2005, the general purpose transfer to the General Fund totals \$6.2 million. In addition, \$12.5 million will be transferred to the General Fund over the five-year period for street maintenance, slurry seal, and neighborhood tree maintenance activities.

Strategic Support

The Strategic Support CSA includes the Civic Center, Communications, Municipal Improvements, and the Service Yards Capital Programs.

Civic Center Capital Program: The Civic Center Capital Program is responsible for constructing the new Civic Center and associated parking facilities. The new Civic Center includes approximately 530,000 square feet of office and public space and is under construction on a 4.9 acre site located on the south side of East Santa Clara Street, between 4th and 6th Streets. Major components of this project include an 18-story office tower, a council chamber wing, an open public plaza with a rotunda, plus a 372-vehicle underground parking garage to serve the visiting public and some staff. Occupancy of this new facility is planned for mid-2005. The total construction cost for this project is \$343 million. In addition, \$45.25 million is programmed for technology, furniture and equipment (TF & E) to operate this facility. The Administration is making every effort to bring the TF & E costs down by the goal of at least 15%.

2004–2005 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET HIGHLIGHTS (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Communications Capital Program: The guiding objective of the Communications Capital Program is the provision of reliable, necessary public and non-public safety-related communications equipment for all City employees that require this equipment for their jobs. A total of \$11.1 million is allocated in the Adopted CIP to replace and upgrade equipment. A large share of this project is funded by two federal grants totaling \$5.3 million. In addition, \$920,000 is programmed to install additional police voting receivers and upgrade signal conditioning devices at existing radio sites. This project will increase radio coverage across adjoining police districts.

Municipal Improvements Capital Program: The General Fund typically supports the projects in this capital program. In the 2005-2009 Adopted CIP, such investments are very limited and include only funds rebudgeted from 2003-2004 to finish existing projects, such as the Animal Shelter Facility, and the annual ongoing allocations for HP Pavilion repairs (\$100,000), fuel tank monitoring/replacement at City facilities (\$50,000), methane monitoring and control at closed City-owned landfills (\$250,000), and unanticipated and emergency maintenance (\$200,000).

Service Yards Capital Program: The objective of the Service Yards Capital Program is to maintain and improve the existing conditions at the Service Yards by implementing projects to reduce safety hazards, increase efficiencies, and provide necessary equipment and materials for operations. While ongoing funding is allocated to address general capital improvement needs, the majority of funding in this capital program is set aside for the Debt Service on Central Service Yard Phase I project and the Central Service Yard Phase II project.

Measuring Capital Performance

The approach to capital project delivery is being transitioned from a department level delivery system to a City Service Area delivery system. In 2003-2004, a set of consistent and comprehensive performance measurements was established for the entire capital program. Measures were created in four key measurement areas: schedule (cycle time), cost, quality, and customer satisfaction. These measures are designed to provide uniformity and consistency, provide clear and measurable outcomes, and to encourage CSA teams and departments to consider total requirements for service delivery, including capital facilities and assets. One-year performance targets are presented for each of these performance measures in the Adopted CIP.

CONCLUSION

This 2004–2005 Adopted Operating Budget successfully closed a \$69.8 million dollar shortfall through preemptive action to reduce current year expenditures and the coordinated efforts of every City Service Area to identify opportunities to be more efficient while reducing costs. Decisions regarding this budget were made in the context of a conservative overall assumption that the economic slowdown that has plagued us for the past three years will be with us at least through the next fiscal year. Even so, in balancing this year's budget, we have deliberately relied in part on one-time solutions in a very limited manner, in order to mitigate the already significant negative impact on services contained in this budget. Just as we began this year with a sizeable gap, the

2004–2005 ADOPTED BUDGET MESSAGE

CONCLUSION (CONT'D.)

legacy of last year's one-time solutions, the portion of this year's deficit that we closed with one-time measures will push some of this year's challenge to the 2005-2006 budget.

Given the unprecedented and enduring economic decline experienced in the past three years, the Administration does believe that the approved mix of reductions, one-time solutions, and use of reserves represents a sound approach to balancing the budget, and that it is consistent with our commitment to provide essential services, meet the City's basic infrastructure requirements, and maintain the City Council's commitment to neighborhoods. Through consolidation, reorganization and by identifying efficiencies, it continues the programs and policies that the City Council has established as organizational priorities, from SNI to implementation of the Economic Development Strategy. At the same time, this is a plan that continues the sound financial discipline that has allowed us to manage successfully through the current economic downturn.

It should also be noted that the 2004-2005 Adopted Budget document has been significantly reorganized, completing the transition to a performance-based budget presentation. The budget is now completely organized around expanded City Service Area sections, with the City Department sections in the back carrying only technical budget information as a reference. The new format is intended to support the City Council's ability to focus on a more policy and performance oriented discussion of the very difficult budget decisions facing it this year.

Finally, I would like to express my sincere appreciation to all of our dedicated City employees for their involvement and understanding as we made the difficult decisions that underlie this budget, and to the City Labor Alliance, which this year worked closely with the Administration as we moved through yet another difficult budget season. I also want to acknowledge the professionalism displayed by the City's Senior and Executive Staff, as well as the many other employees who made a direct contribution to the preparation and production of this document and to express my sincere appreciation for a job well done.

Del D. Borgsdorf
City Manager